

Contact: Director Jeff Michael, Ph.D.
O: 209.946.7385
C: 209.662.5247
jmichael@pacific.edu

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CALIFORNIA AND METRO FORECAST: January 2017

(Stockton, Calif.) January 31, 2017 – The California economy should maintain solid 2.6% growth in 2017 with the unemployment rate holding steady at 5.4% as job growth decelerates to 1.6% according to the latest projection from the Center for Business and Policy Research at the University of the Pacific. Beyond 2017, growth is expected to slow as the initial boost from anticipated tax cuts and deficit spending under President Trump fades and reduced federal healthcare spending, reduced immigration and international trade, and a rising dollar and interest rates curb growth.

However, the surprise election results change our baseline California forecast less than might be expected given this discussion. The election does substantially increase uncertainty around the outlook and increases the risk of a recession that could dramatically change the outlook – most likely spurred by disruption to the global economy. Anticipated policy changes will also affect the regional outlook. The Bay Area is better positioned to benefit from tax cuts and reduced financial regulation, while the Central Valley has benefited greatly from expanded healthcare spending under Obamacare and will be disproportionately harmed by its expected repeal.

The Bay Area economy is gradually slowing but should continue to lead the state in job and income growth over the next two years. Central Valley metropolitan areas averaged strong 3% job growth in 2016 but will see slower growth in 2017, especially in the North San Joaquin Valley. By 2018, job growth in these areas will have declined to about 1%, considerably slower than recent years as the impacts of Obamacare repeal start to be felt. Despite slower growth, the outlook for the Valley remains relatively positive in historical context as we forecast all Central Valley areas in our forecast will sustain single-digit unemployment in 2018 and 2019.

The Center for Business and Policy Research at the University of the Pacific was founded in 2004 and was known as the Business Forecasting Center until March 2015. The Center is a joint program of the Eberhardt School of Business and the McGeorge School of Law programs in public policy and has offices at the Sacramento and Stockton campuses. The Center produces economic forecasts of California and eight metropolitan areas in Northern and Central California, in depth studies of regional economic and policy issues, and conducts custom studies for public and private sector clients. For more information, visit Go.Pacific.edu/CBPR.

California Annual Forecast Summary

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|------|------|-------|-------|-------|-------|
| Real Gross State Product (% change) | 4.2 | 2.5 | 2.6 | 2.3 | 2.2 | 2.0 |
| Non-Farm Payroll Employment (% change) | 3.0 | 2.6 | 1.6 | 1.0 | 0.9 | 0.8 |
| Unemployment Rate (%) | 6.2 | 5.4 | 5.4 | 5.4 | 5.6 | 5.9 |
| Housing Starts (thousands) | 91.4 | 92.8 | 111.7 | 126.7 | 138.1 | 144.3 |

Central Valley Metro Forecast Summary

| Metro Area | Nonfarm Payroll Employment (% change) | | | | | Unemployment Rate (%) | | | | |
|-------------------|--|------------|------------|------------|------------|-----------------------|------------|------------|------------|------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Sacramento | 2.6 | 2.5 | 1.4 | 0.9 | 1.0 | 5.3 | 5.3 | 5.3 | 5.6 | 6.0 |
| Stockton | 3.1 | 1.0 | 0.8 | 1.0 | 0.9 | 8.1 | 8.2 | 8.3 | 8.5 | 8.9 |
| Modesto | 3.4 | 1.5 | 0.9 | 0.7 | 0.8 | 8.5 | 8.4 | 8.5 | 8.8 | 9.3 |
| Merced | 3.0 | 0.8 | 0.4 | 1.3 | 1.3 | 10.4 | 10.0 | 9.9 | 9.8 | 10.1 |
| Fresno | 3.0 | 2.0 | 1.1 | 0.7 | 0.5 | 9.4 | 9.5 | 9.5 | 9.9 | 10.6 |
| <i>California</i> | <i>2.6</i> | <i>1.6</i> | <i>1.0</i> | <i>0.9</i> | <i>0.8</i> | <i>5.4</i> | <i>5.4</i> | <i>5.4</i> | <i>5.6</i> | <i>5.9</i> |

Sacramento MSA includes Sacramento, El Dorado, Placer, and Yolo Counties. Stockton, Merced, Fresno, and Modesto MSAs correspond to San Joaquin, Merced, Fresno, and Stanislaus Counties.

Bay Area Metro Forecast Summary

| Metro Area | Nonfarm Payroll Employment (% change) | | | | | Unemployment Rate (%) | | | | |
|-------------------|--|------------|------------|------------|------------|-----------------------|------------|------------|------------|------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2016 | 2017 | 2018 | 2019 | 2020 |
| San Francisco | 3.2 | 2.2 | 1.8 | 1.5 | 0.8 | 3.2 | 3.0 | 2.9 | 2.9 | 2.9 |
| San Jose | 3.5 | 2.0 | 1.2 | 0.9 | 0.8 | 3.8 | 3.6 | 3.5 | 3.5 | 3.5 |
| Oakland | 2.7 | 1.9 | 1.4 | 1.3 | 1.0 | 4.3 | 3.9 | 3.6 | 3.6 | 3.8 |
| <i>California</i> | <i>2.6</i> | <i>1.6</i> | <i>1.0</i> | <i>0.9</i> | <i>0.8</i> | <i>5.4</i> | <i>5.4</i> | <i>5.4</i> | <i>5.6</i> | <i>5.9</i> |

San Francisco MSA includes San Francisco and San Mateo counties. Oakland MSA includes Contra Costa and Alameda Counties. San Jose MSA includes Santa Clara and San Benito Counties.

Highlights of the January 2017 California Forecast

- Real Gross State Product is forecast to grow 2.6% in 2017, followed by a gradual decline in growth rates to 2.0% in 2020 as the risk of recession increases.
- The California unemployment rate has reached its low point in this cycle and is projected to stabilize at about 5.4% for the next two years, and gradually increase to 6% by 2020.
- Non-farm payroll jobs will grow 1.6% in 2017, a decrease from the past four years when job growth was between 2.5% and 3%. The pace of job growth statewide will stabilize around 1% in 2018 and beyond.
- Health Services has become the largest employment sector in the state and is projected to add an additional 40,000 positions over the next 12 months, less than the 65,000 jobs added in recent years. Due to the anticipated decrease in federal health funding, growth in Health Services jobs will decline further to 25,000 new jobs per year in 2018 and 2019.
- Professional Scientific & Technical Services is a high-paying sector that has fueled the recovery. Growth in this sector will slow to about 20,000 jobs over the next year compared to over 50,000 in some recent years as Silicon Valley growth cools.
- Growing tourism and a gradual shift in consumer spending from retail to restaurants has fueled rapid growth in the Leisure & Hospitality sector. However, this sector's growth is slowing to 30,000 new jobs over the next 12 months and will cool further to 15,000 new jobs by 2020 as increases to the minimum wage eventually slow hiring.
- State & Local government employment will be one of the slowest growing sectors, projected at 1% or less job growth over the next several years as state and local governments grapple with slower revenue growth and rising pension costs.
- About 25,000 new Construction jobs are anticipated in each of the next three years, about a 3% annual growth rate. Despite this expected growth, there will still be fewer Construction jobs in 2020 than before the recession.
- Single-family housing starts are growing slowly, falling just short of 50,000 units in 2016. We project an increase to 60,000 units in 2017 and 73,000 units in 2018 as the state's growing housing shortage revives interest in new homes.
- Multi-family housing starts have surpassed pre-recession levels, but growth has stalled with about 45,000 new multi-family units produced in 2015 and 2016. We expect modest multi-family growth to 51,000 units in 2017 and up to 60,000 units by 2020.

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